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BRITISH INVESTMENT IN INDIA

Britain has been a major supplier of capital to overseas countries for many years. This money was raised for a wide variety of purposes. Sometimes the funds went to finance wars, and sometimes to help reconstruction after wars, as was the purpose of loans to Europe after 1815 as well as after 1918 and 1945. Sometimes the objective was to help emerging states to establish their independence, as in the case of the British loans in the early 19th century to Greece and the new states of Spanish South America, and as is happening now in the field of Government-to-Government lending. But generally the purpose was to provide capital for the purchase of British equipment and expertise to help economic development, especially railway building. By 1913 British private investments in publicly issued securities (portfolio investment) is estimated to have been about £3,760,000,000 (around £15,000,000,000 at present day prices). In addition British firms also invested overseas by establishing plantations, opening up mines and setting up manufacturing subsidiaries (direct investment).

Throughout this long history of capital outflow from Britain, India has been one of the foremost recipients. However, the pattern has changed. Private capital is almost entirely direct investment by British firms and new investment from private sources now goes into manufacturing industry rather than plantations, utilities and the railways. Over and above this investment the British Government provides substantial economic assistance in the form of loans as a direct contribution towards India's economic development.

This article examines the contribution made by the British private investor. The assessment is in monetary terms but it is well to remember that the contribution does not stop there. As Sir Norman Kipping said in his report "India 1963", "The men who have brought in their management and technical skills have perhaps made an even greater contribution to development ..... helped by a high degree of mutual understanding and respect, usually a common language, and a similar code of business ethics".

Valuing British Investment

The valuation of British direct investment overseas is based on book values. This is satisfactory in the case of more recent investments and for assessing current assets and liabilities, but the method may seriously understate the value of fixed assets acquired in the past. This is likely to be especially true of plantation and mining companies which occupy an important share of total British investments in India. The estimates provided in Table I, which are issued by the British Board of Trade, also understate the true position because they exclude investment in oil, banking and insurance. Even with these limitations, however, the figures give a reasonable picture of the magnitudes involved.

India with a total of £256,000,000 in 1962 still remains one of the most important recipients of British private investment capital. In the world total of British direct investment overseas (excluding oil, etc)

of £3,600,000,000 the Indian share is 7 per cent; there are only four other single recipients whose percentage share is greater than this. The distribution of these assets between the main sectors of the Indian economy was probably about a third in plantations, less than a tenth in mining, a quarter in distribution and other services and two-fifths in manufacturing industry. Within India these British investments account for two-thirds of foreign investment in the country.

The Total

On the assumption that British investment in India continued to rise in 1963, and allowing for the value of British owned investment in oil, banking and insurance, as well as for some British privately owned Indian Government stock and other securities, the total value of the British investment stake in India must be around £300,000,000.

The Flow

Perhaps as important as the value of existing assets, some of which are associated with investments made initially many years ago, is the **flow** of new overseas investment into India's expanding industrial economy. The fact that the British investment stake in India is continuing to grow signifies that British businessmen, along with businessmen from many other countries, have faith and confidence in the future of the Indian economy. That this faith is justified was indeed the main conclusion of the Kipping Report referred to earlier in the article.

Table II shows the country destination of British direct investment in the years 1959 to 1962, again excluding oil, banking and insurance. The main recipients are the same countries as in Table I although Table II illustrates how Australia continues to be a particularly important area for British investment, while investment in Canada has been tending to decline. Not shown in the table is West Germany where from very low levels, British investment is estimated to have risen to £13,000,000 in 1962. Investment in India has remained steady at about £13,000,000 a year for the last four years. Thus countrywise India remains one of the largest single recipients of British funds for direct investment.

No figures of actual investment are yet available for the period beyond 1962, but a Government of India statement of collaboration agreements suggests that investment may have fallen off in 1963. A sharp rise in agreements in the first half of 1964 implies a recovery in the current year. Figures of collaboration agreements can be only a rough guide since the time taken to come to fruition varies between each agreement, some agreements may involve very little capital and some may not be implemented. Even so they provide some indication of the probable trend. Thus in 1962 the total of agreements concluded by British firms was 81; the British total fell to 71 in 1963. On the other hand 52 agreements were concluded in the first half of 1964 compared with 38 in the same period a year before.

The Long-term Outlook

Thus the links which have been forged over the years between British industry and India continue to be strengthened. In the longer term the outlook is favourable for a substantial rise in the level of British investment as well as for further diversification of the British contribution. It is sometimes said that there is a limit to the rate at which British investment in India can grow because many of Britain's largest companies are already established in the country. There is some truth in this. But over the next few years, as the Indian economy becomes more complex, the flow of funds might significantly increase through investment by Britain's new scientific based industries.

Table I

VALUE OF BRITISH DIRECT INVESTMENTS OVERSEAS
1962
(Excluding oil, insurance and banking)

£m.

	PLUS Gross Fixed Assets	LESS Current Assets	LESS Current Liabilities	EQUALS Depreciation	Total Value	Percentage of Total
United States	207	344	139	71	341	9
Canada	784	379	179	312	672	19
Other Non-sterling Area	547	639	363	200	623	17
Total Non-sterling Area :	1538	1362	681	583	1636	45
Australia	452	392	206	116	522	15
South Africa	211	256	131	67	269	8
India	252	235	148	83	256	7
Rest of Sterling Area	846	673	329	273	917	25
Total Sterling Area :	1761	1556	814	539	1964	55
Grand Total :	3299	2918	1495	1122	3600	100

Table II

THE FLOW OF BRITISH DIRECT INVESTMENT
(Excluding oil, banking and insurance)

£m.

	1959	1960	1961	1962
United States	16	16	20	10
Canada	36	28	18	8
Other Non-sterling Area	38	45	58	63
Total Non-sterling Area :	90	89	96	81
Australia	27	60	33	45
South Africa	11	19	8	13
India	12	14	13	13
Rest of Sterling Area	51	60	62	42
Total Sterling Area :	101	153	116	113
Allowance for non-response	5	5	14	15
Grand Total :	196	247	226	209

COMMONWEALTH FINANCE MINISTERS' MEETING

Current trends in world trade and payments, noting the improved world economic situation, and the continuing strength of the balance of payments position of the Sterling Area, were among the main points

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contained in the communique issued by the Commonwealth Finance Ministers on September 2 at the end of their two-day meeting in Kuala Lumpur.

The Ministers referred to the economic prospects for their countries and the problems which they faced, in particular the need to step up the rate of growth in the developing countries.

While there had been an improvement in the trading position of the Sterling Area as a whole, this had been unevenly spread and the basic weakness of many primary commodities pointed to the need for new approaches to the problem.

Developing Countries

The Council recognized the importance of the United Nations Conference on Trade and Development. It was noted that the results of the Conference were valuable only as a first step, and that much remained to be done in following up the work of the Conference.

The need was also stressed for facilitating to a greater extent the access of manufactured goods from developing countries to the markets of the industrialized countries as well as devising means to ensure stable and reasonable commodity prices.

The Council expressed the hope that the "Kennedy Round" of trade and tariff negotiations in the G.A.T.T. would achieve positive benefits for all members of the Commonwealth.

In a discussion of the importance of maintaining adequate international liquidity and strengthening the international monetary system, the Ministers expressed the hope that the meeting of the I.M.F. in Tokyo would be able to reach agreement on the need to increase the resources and extend the facilities of the Fund to whose position in international monetary matters they attached the highest importance.

They stressed that due regard should be paid to the interests and problems of the developing countries.

World Bank

The Council welcomed recent developments in the World Bank and the International Development Association in extending their activities to new fields and making the Bank's terms of lending more flexible.

Particular mention was made of their support for education and agriculture and the supply of technical aid, all of which are ofgreat importance in promoting development. The Ministers noted with satisfaction the increased readiness of the Bank and the I.D.A. to finance not only foreign exchange costs, but also local currency costs of development projects.

The Council stressed the need for a continuing increase in the amount of aid to developing countries. It expressed appreciation for the measures which had already been taken by certain donor countries towards making aid available on favourable terms.

The view was expressed that in the light of the increasing burden of the debt servicing obligations and other financial problems of the developing countries, the developed countries should give consideration to the need for providing a higher proportion of their aid on more liberal terms.

The Ministers also reviewed possible new initiatives for Commonwealth co-operation in technical assistance and other fields. They welcomed the progress which had been made on the study of these initiatives, and agreed that they would be carried forward speedily.

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